

UKIBC'S 8TH ANNUAL REPORT ON DOING BUSINESS IN INDIA: THE UK PERSPECTIVE

NOVEMBER 2022

SUPPORTING BUSINESS SUCCESS

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INTRODUCTION

This is the UK India Business Council's eighth annual 'Doing Business in India' Report, a series that began in 2015 in which we uncover the views and experiences of UK businesses and higher education institutions on India's business environment.

This report details UK businesses motivations for doing business in India, the challenges they face in entering and operating in India, their reform priorities, and rating of various aspects of India's business environment. This is done with the aim of continuing our partnership with the Government of India and State Governments to build on the strong gains already made in improving the ease of doing business in India.

India has made huge progress on the ease of doing business in recent years under Prime Minister Narendra Modi and reform-minded State Governments, making India a stronger economy and a more attractive destination for foreign investment. There has been great success. India has been the fastest growing major economy since PM Modi was elected Prime Minister in 2014 and international businesses are playing an increasing part in the growth story.

To take this growth to the next level, businesses from the UK and India consistently highlight the importance of ease of doing business reforms to the UKIBC, including during our pre-UK-India-FTA consultation in 2021 and in our annual Doing Business in India reports. This feedback from business is critical in advancing the ease of doing business in India, as those companies operating on the ground relay their experience and propose practical changes.

The UKIBC is a strong advocate that to be successful in India businesses should be in India, with operations on the ground, collaborating with Indian partners, to make, service, and export from India. That is why the ease of doing business is so important.

More than 600 UK companies are deeply established in India and keen to enhance their investments and partner with Indian organisations. The full potential of the relationship, and truly both countries' respective economies, will be fully realised by continual reform and bureaucratic efficiencies.

EXECUTIVE SUMMARY

Working in partnership with businesses, the Government of India and State Governments have taken a proactive approach to make India an easier place to do business and a more attractive destination for investment. The reward has been an increase in foreign investment and the highest growth rate of any major economy.

With that said, India at times remains a complex country in which to do business and, in a spirit of partnership, UK businesses established in India have highlighted existing challenges to doing business and proposed reforms that would make it easier to do business, thus helping to attract investment, incentivise growth, and create jobs and prosperity in India.

- In terms of challenges, 'Legal and regulatory impediments' remains, by some distance, the greatest barrier perceived by UK businesses in India – selected by 56 percent of businesses surveyed – as it has been in all our Doing Business in India reports since 2015. 'Goods and services tax', 'import tariff barriers', and 'export-import laws and regulations' were the most noted legal and regulatory barriers.
- It is not surprising, therefore, that 'improving turnaround time of approvals and bureaucratic processes' is the most desired reform by UK businesses – as chosen by 54 percent of businesses surveyed. 'Simplification of the GST processes' and 'increasing regulatory certainty' were also frequently desired reforms.
- When it comes to India's strengths, 'telecommunication facilities' and the 'availability of skilled labour' are the highest scoring.
- We also asked what attracted UK investors to India; the 'size of the Indian consumer market' ranked as the most important, selected by 65 percent of businesses. Followed by a 'request for product or service from customers in India' which ranked comfortably second, selected by 50 percent.

- With regards to choosing where in India to locate, the most important factor was ‘quick approvals and effective bureaucracy’, as selected by 50 percent of the businesses. ‘Size of market’ (39 percent), ‘fewer regulations and supportive government policy (37 percent) and the availability of skilled labour (35 percent) were also widespread reasons cited for selecting a particular location in India.
- Maharashtra was the highest rated state in terms of the operating environment, followed by Gujarat, Chandigarh, Haryana, Himachal Pradesh, Andhra Pradesh, and Uttar Pradesh.
- It is important to note that UK businesses remain on the whole optimistic that Atmanirbhar Bharat (self-reliant India) presents an opportunity to do more trade and investment with India, with 67 percent of businesses affirming this, versus 33 percent that see the self-reliant mission as a challenge.

Viewed together, the positively balanced findings of this report substantiate that the long-term benefits of the Indian market outweigh some of the short-term barriers, and UK businesses remain resolutely committed to partnering with India to support economic growth and trade and investment between our countries.

METHODOLOGY

The findings of this report are derived from an extensive survey of 111 UK businesses and higher education institutions with the aim to shed light on the operating environment in India. The survey is consistent with our seven previous surveys conducted annually from 2015 to 2021, as completed by over 600 respondents in total.

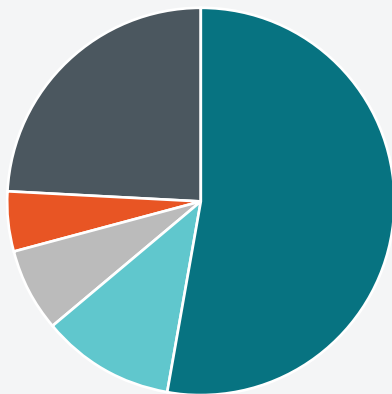
We have subsequently analysed the vast sets of data that our survey has produced over time in order to reveal the key developments in the operating environment in India from a UK business perspective. These findings are complimented by the insights and experiences from the UKIBC's regular discussions with businesses throughout the year.

Survey Respondents

The majority of the UK companies we surveyed are already working in India (84 percent). We have also gathered the views of companies still entering the Indian market, which provides useful information on the challenges faced by organisations looking to do business in India.

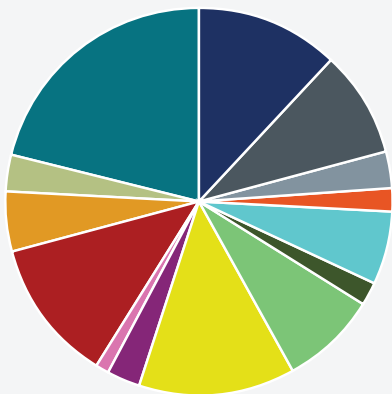
We heard from a variety of companies by size and by sector, varying from those in advanced engineering and manufacturing, to digital and data services, professional services, healthcare and life sciences, and others. As well as large companies employing more than 1000 workers in India, small and medium sized enterprises (companies with a workforce of less than 250) are well represented too.

Companies by size



- 1 - 49 Employees
- 50 - 249 Employees
- 250 - 499 Employees
- 500 - 999 Employees
- 1000+ Employees

Companies By Sector



- Advanced Engineering and Manufacturing
- Information and Communications Technologies
- Energy
- Infrastructure
- Life Sciences and Healthcare
- Retail and Consume
- Food and Drink
- Education and Skills
- Tourism and Hospitality
- Sports and Gaming
- Professional, Financial, and Legal services
- Defence and Aerospace
- Chemicals

INDIA AS AN ATTRACTIVE INVESTMENT DESTINATION

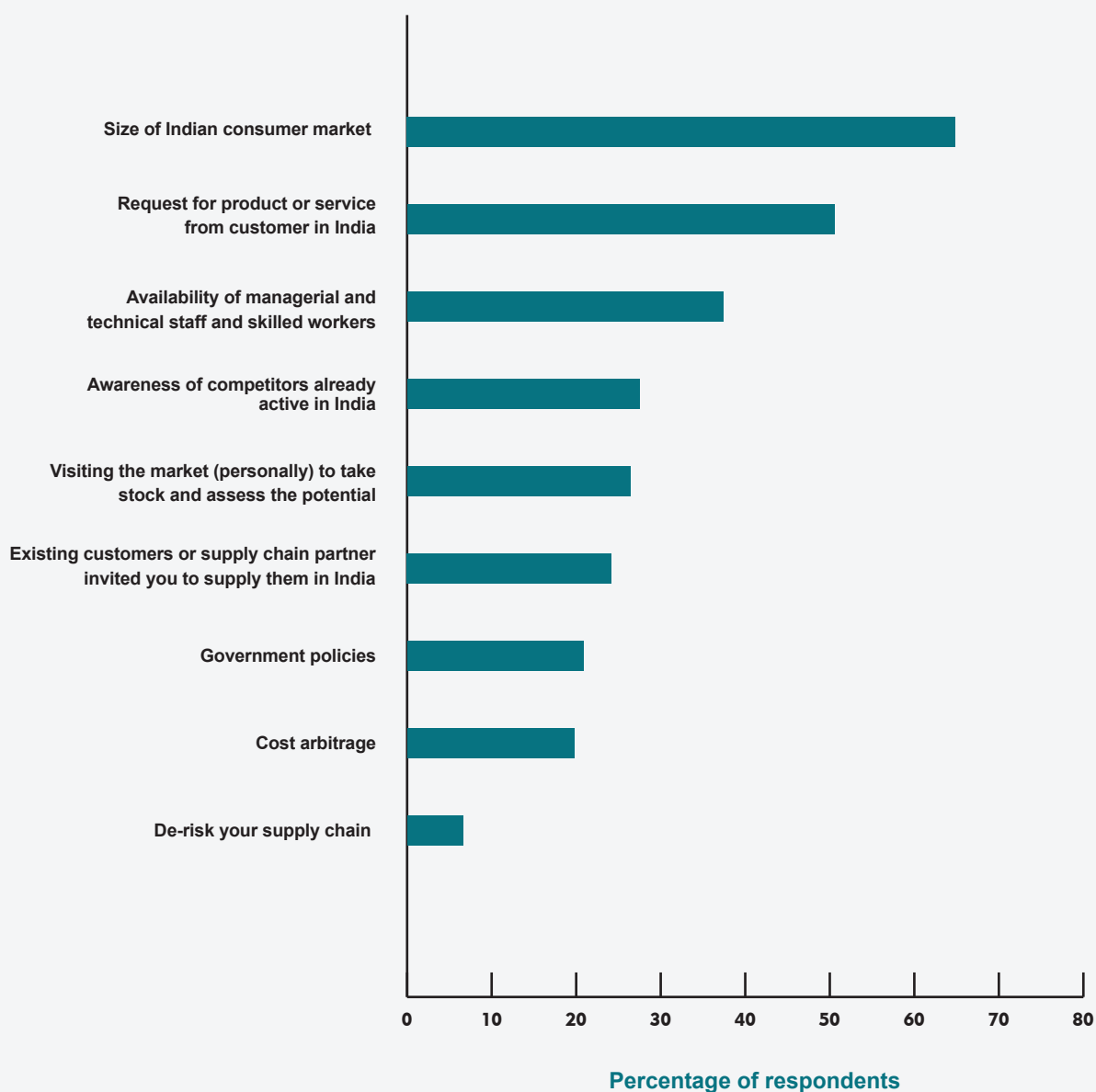
To better comprehend the experiences of UK companies in India, it is important to understand what the motivations are for working in India in the first place. We asked respondents to rank a number of location factors on a range from very important to not important, in order to build an index of India pull factors.

'Size of the Indian consumer market', ranked as the most important reason for UK companies in determining their India presence for the second year in a row (65 percent). 'Request for product or service from customers in India' ranked comfortably second, selected by 50 percent of businesses. The 'availability of managerial and technical staff and skilled workers' was ranked third highest, selected by nearly 40 percent of businesses.

India's population is close to 1.4 billion people and is widely expected to overtake China within the next decade. This growing population, coupled with an economy growing at a phenomenal rate – India has grown at 8.7% in the FY2021-22 – is helping to generate a large consumer market. As this rate of growth continues and India's middle class continues to expand, the country's consumer market will become an increasingly attractive proposition for international investors. At the same time, this huge population is creating the world's largest workforce, especially at a time when companies around the world are struggling to find suitable labour.



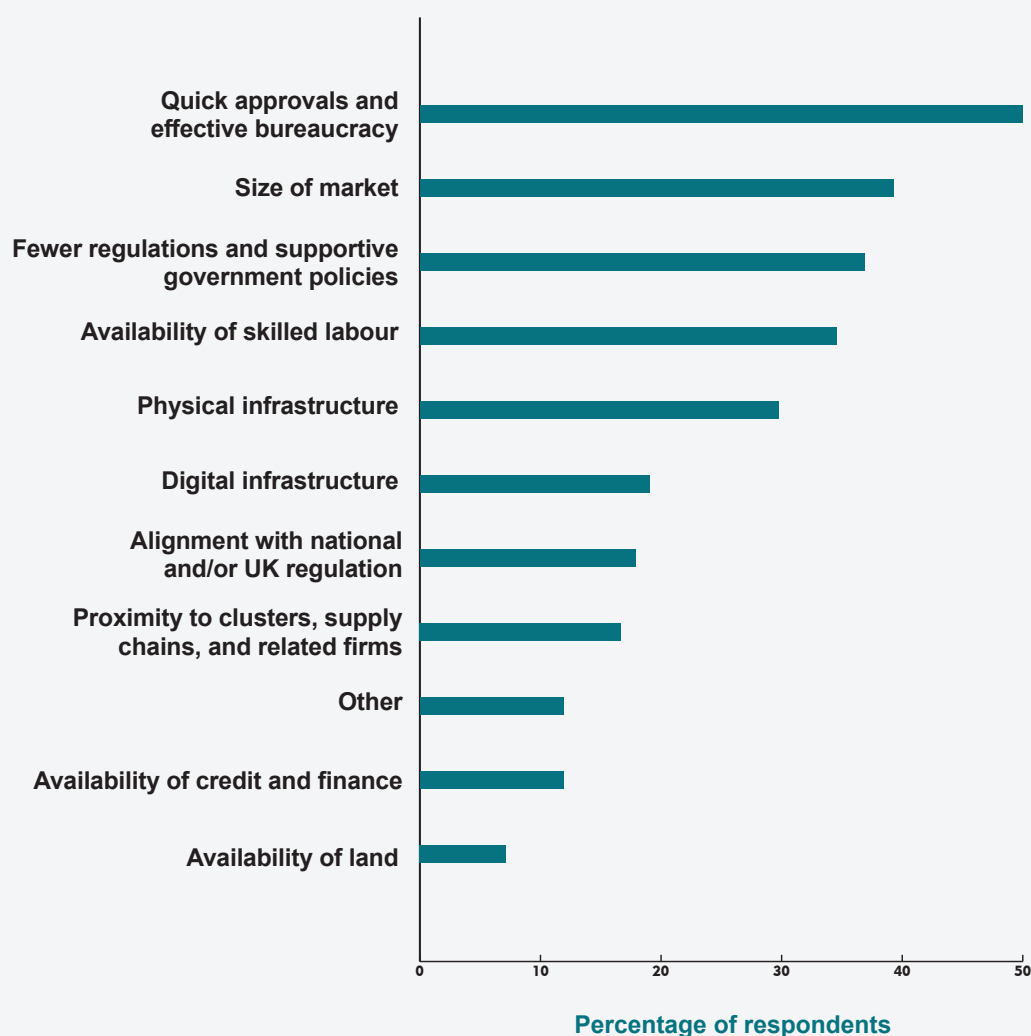
Of the following factors, which were the most important in your decision to do business in India?



India is made up of 28 states and 8 union territories. Each one is distinct, with variations in languages, cultures, outlooks, laws, and regulations. Accordingly, businesses should be cognisant of this fact when trading or investing in India and play to states' various strengths. Due to this diversity between regions, we took a deeper dive to look at why companies locate where they do within India.

Factors cited were a mix of those pertaining to the ease of doing business - like approvals and regulations - and market attractions - such as size of the market and availability of labour force. We found that the most prevalent reason was 'quick approvals and effective bureaucracy', as selected by 50 percent of the businesses. 'Size of market' (39 percent) was the second most significant factor, followed by 'fewer regulations and supportive government policy (37 percent) and the 'availability of skilled labour' (35 percent). 'Physical infrastructure' completed the top 5, selected by 30 percent.

When choosing where in India to invest, which of the following factors are among the most important?



Although the Government of India is pushing its own centralised agenda to develop the country and create a better business environment nationwide, it has also encouraged state governments to improve the business environment at the state level. This has led to healthy competition between states to attract investment, which in turn creates more jobs, economic activity and tax that can be re-invested into state infrastructure such as education, healthcare, and transport and digital connectivity.

States have autonomy in legislative and executive powers, covering things like public order, hospitals, land, education, betting and gambling, and certain taxes. Due to this autonomy over regulations, as well as differing views and priorities, State governments play a critical role as architects of their business environment.

Our survey of 111 businesses covers each and every one of India's states and union territories. To better understand the variation in India's operating environment, we asked the businesses to rate each state in which they are present on the ease of doing business on a scale from 1 (extremely difficult) to 5 (easy).

The results show that Maharashtra was the highest rated state in terms of the operating environment, followed by Gujarat, Chandigarh, Haryana, Himachal Pradesh, Andhra Pradesh, and Uttar Pradesh.

With a range of 3.33 to 2.16 (out of 5) businesses clearly perceive a significant gap between the states. This discrepancy highlights the room for improvement for those states that scored less well to attract international investors. This 'competitive federalism' can be an engine for improvement across all states. To partnering with India to support economic growth and trade and investment between our countries.

We recommend that Indian states align their industrial development plans with national policy to attract international investment, while, of course, also playing to their own particular strengths. From a business point of view, the ability to trade and invest across States is beneficial so those states that are aligned with others and the Centre are likely to succeed in attracting investment.

State and UT rankings on ease of doing business

Maharashtra	3.33	Rajasthan	2.87
Gujarat	3.27	Kerala	2.86
Chandigarh	3.26	Dadra & Nagar Haveli	2.83
Haryana	3.25	Assam	2.77
Himachal Pradesh	3.22	Tripura	2.71
Andhra Pradesh	3.21	West Bengal	2.64
Uttar Pradesh	3.19	Jharkhand	2.61
Tamil Nadu	3.12	Manipur	2.56
Uttarakhand	3.11	Ladakh	2.53
Puducherry	3.06	Mizoram	2.53
Telangana	3.05	Arunachal Pradesh	2.5
Goa	3.04	Meghalaya	2.5
Madhya Pradesh	3	Nagaland	2.47
Delhi	2.97	Lakshadweep	2.44
Punjab	2.92	Sikkim	2.38
Karnataka	2.91	Bihar	2.35
Chhattisgarh	2.9	Andaman and Nicobar Islands	2.26
Daman and Diu	2.89	Jammu and Kashmir	2.16
Odisha	2.88		

Our results from the perspective of UK businesses correspond to the Government of India's own state ranking which saw Andhra Pradesh, Gujarat, Telangana, Haryana, Karnataka, Punjab and Tamil Nadu as the top 7.

EASE OF DOING BUSINESS

There has been significant success in making India a business-friendly investment destination thanks to significant policy reforms and sustained effort over many years. Reforms such as online submissions and approvals, and the Insolvency Act, among others, have helped to make India an easier place to do business.

To continue to build on this progress, Governments across India remain focused on further improvements. This next section looks at various components of India's business environment, the major barriers to doing business, and reform priorities, all from the perspective of UK companies looking to enter or already operating in India.

RATING INDIA'S BUSINESS ENVIRONMENT

Our survey asked companies to rate India on 13 components of a thriving business environment on a scale from 1 (poor) to 5 (excellent). We produced a weighted average of their responses, with the higher the score the more favourable the rating.

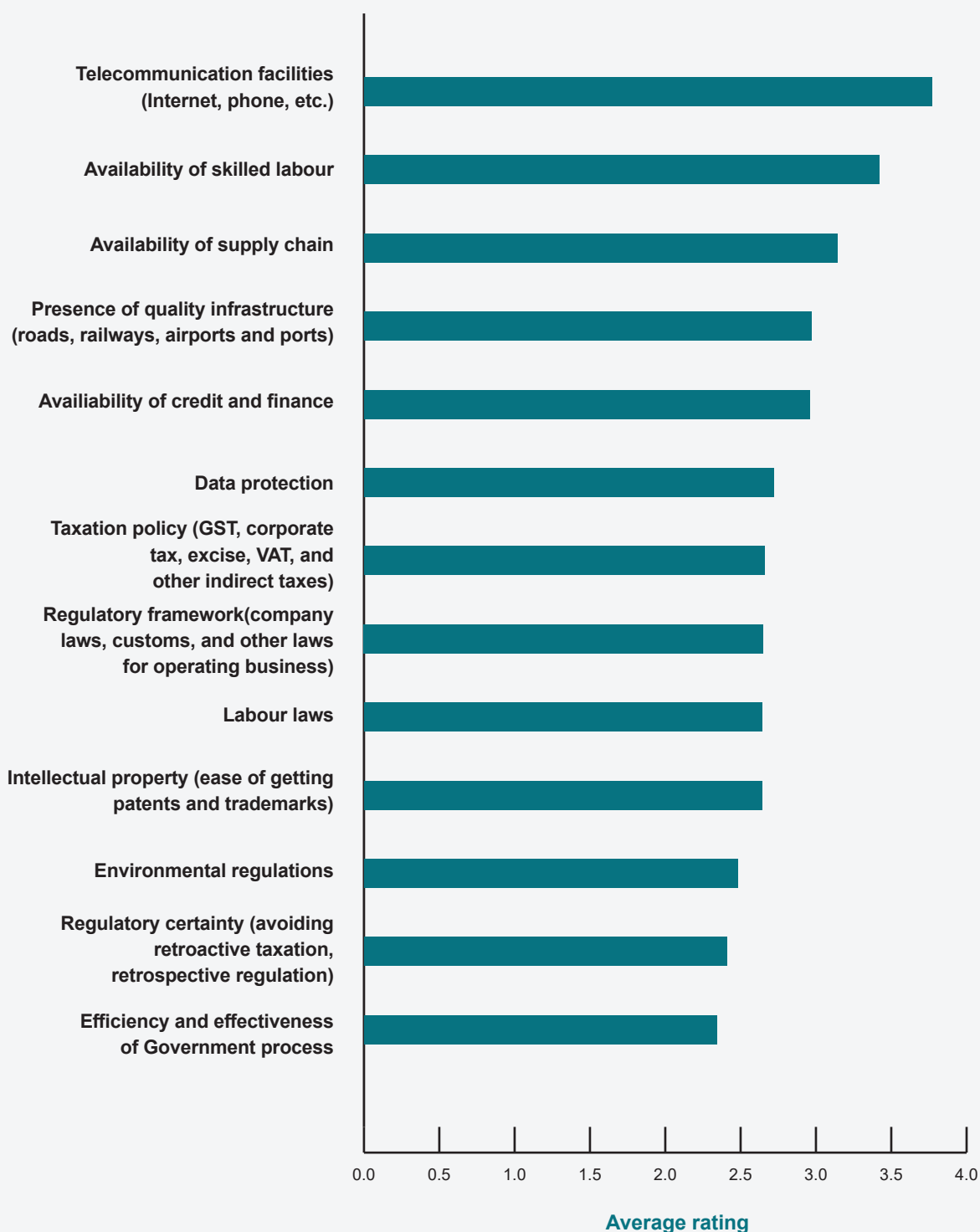
'Telecommunication facilities' (3.77) and 'availability of skilled labour' (3.42) were clearly the top 2 best regarded components of India's business environment, in keeping with recent years' results.

'Supply chain' (3.14), 'quality of infrastructure' (2.97) and the 'availability of credit and finance' (2.96) completed the top 5 best rated components.

Telecommunication facilities have been regarded as India's strongest component every year since we introduced the UKIBC's Doing Business in India survey in 2015. In fact, the top 4 this year have all consistently ranked highly.

Less positive were 'environmental regulations', 'regulatory certainty' and 'efficiency and effectiveness of government processes' – the only three factors that scored less than 2.5 out of 5. 'Intellectual property' was also notably scored low by the businesses (2.64).

How do you rate the following components of India's business environment?



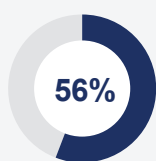
BARRIERS TO DOING BUSINESS

Although India has made significant progress on ease of doing business, businesses tell us that challenges remain. We asked respondents to select their top 3 barriers to doing business in India.

The most frequently selected was 'legal and regulatory barriers' with 56 percent of all respondents selecting it in their top 3. This has been the case in all 8 editions of our Doing Business in India report series since 2015, and by quite some distance.

Next was 'price points' and 'identifying a suitable partner' (both 30 percent), followed by 'corruption' (28 percent) and 'high tax rate and other taxation issues' (26 percent)

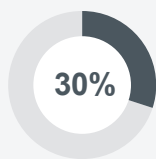
Top 3 barriers to doing business in 2022



Legal & regulatory barriers

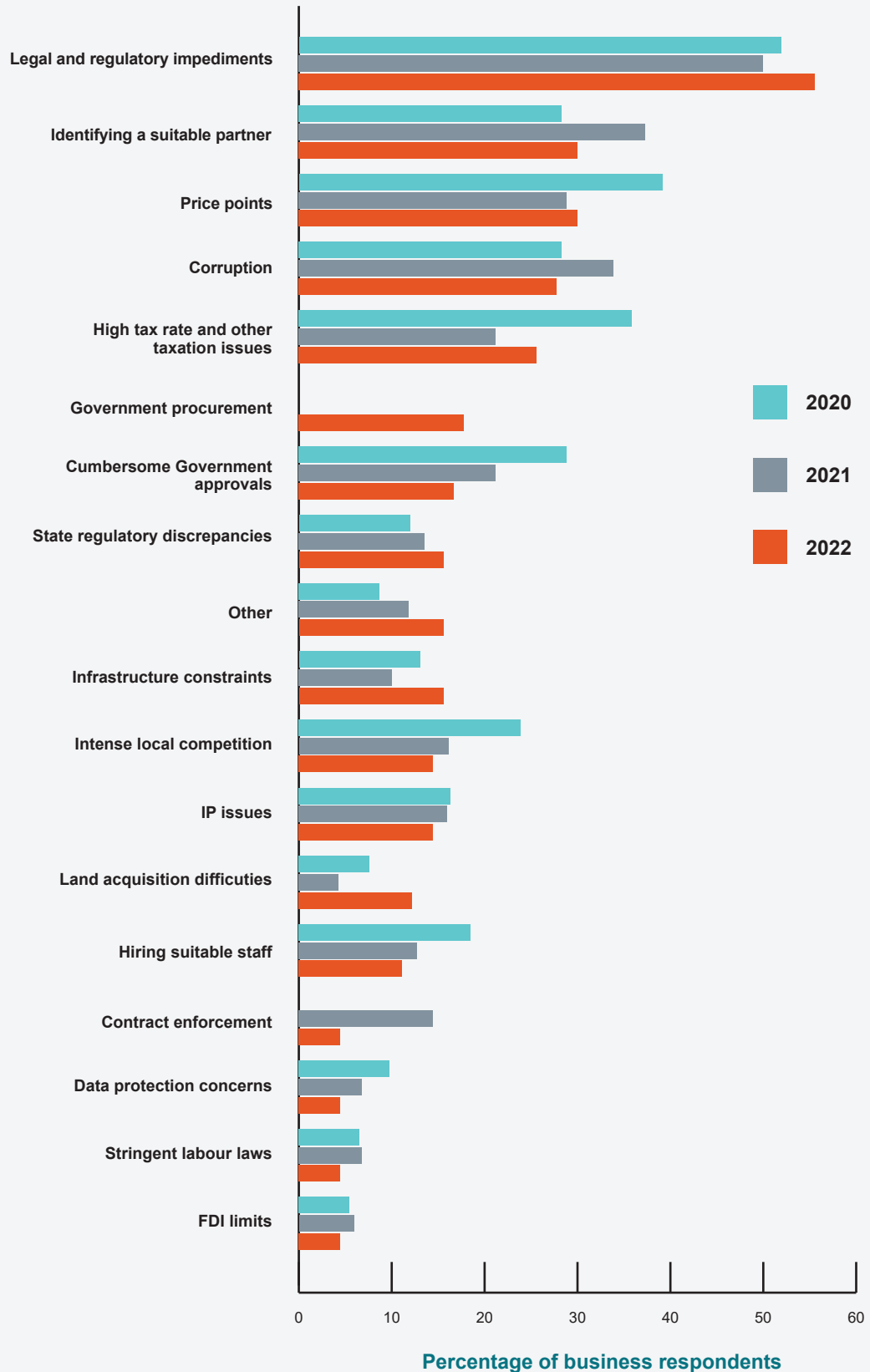


Price points



Identifying a suitable partner

Of the following barriers to doing business in India, which do you perceive to be the most significant? (Over time)

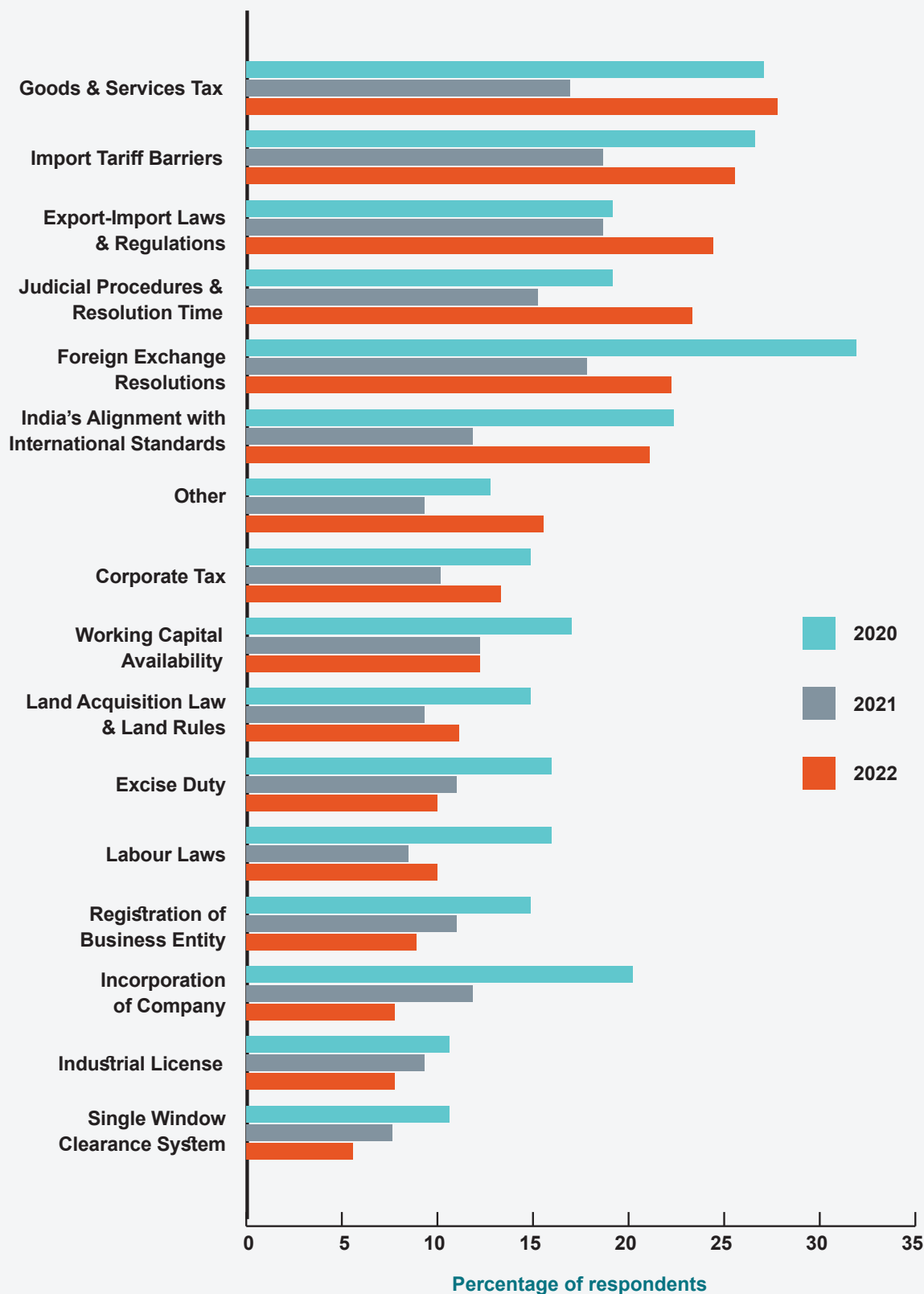


Due to the long-held view that legal and regulatory impediments are the greatest barrier to doing business in India, we delved further into which impediments are particularly challenging.

We found that within legal and regulatory barriers, the 'goods and services tax', 'import tariff barriers', 'export-import laws and regulations', and 'judicial procedures and resolution time' were the most cited barriers. 'Physical infrastructure' completed the top 5, selected by 30%.

It is also noticeable that the Goods and Services Tax has moved up to the number one legal and regulatory barrier (28 percent), compared to fourth last year. India introduced the Goods and Services Tax (GST) in 2017 to bring uniformity to the country's tax system. Businesses very much welcomed this reform and its objective to align states and union territories, but many are still coming to grips with the new systems and processes several years later.

Which legal and regulatory barriers present the greatest challenge to doing business in India? (Over time)



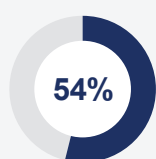
REFORMS TO IMPROVE INDIA'S BUSINESS ENVIRONMENT

To reduce the barriers highlighted in previous sections, businesses have suggested constructive recommendations based on their experiences that they believe would engender a more efficient and effective business environment.

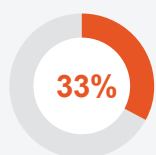
'Improving turnaround time of approvals and bureaucratic processes' was the most desired reform – preferred by 54 percent of businesses surveyed. 'Simplification of the GST processes' (33 percent) and 'increasing regulatory certainty' (32 percent) were also frequently cited, in line with our findings in section 5.2 that legal and regulatory impediments were the greatest barrier to doing business and GST the most significant legal and regulatory impediment.

An 'effective single window clearance for project approvals' and 'alignment amongst State regulations' were further reform priorities, in line with feedback the UKIBC has received from businesses in discussions in recent years. Single window clearance saves businesses time and resources by creating one agency for the submission of information, rather than having to deal with multiple agencies in multiple locations to obtain the necessary papers, permits, and clearances to complete import or export processes. Alignment amongst state regulations opens opportunities for businesses to extend operations and exports beyond state borders, to access India's talent and market.

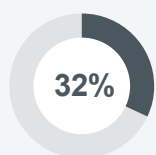
Top 3 reform priorities



Improving turnaround time of approvals and bureaucratic processes

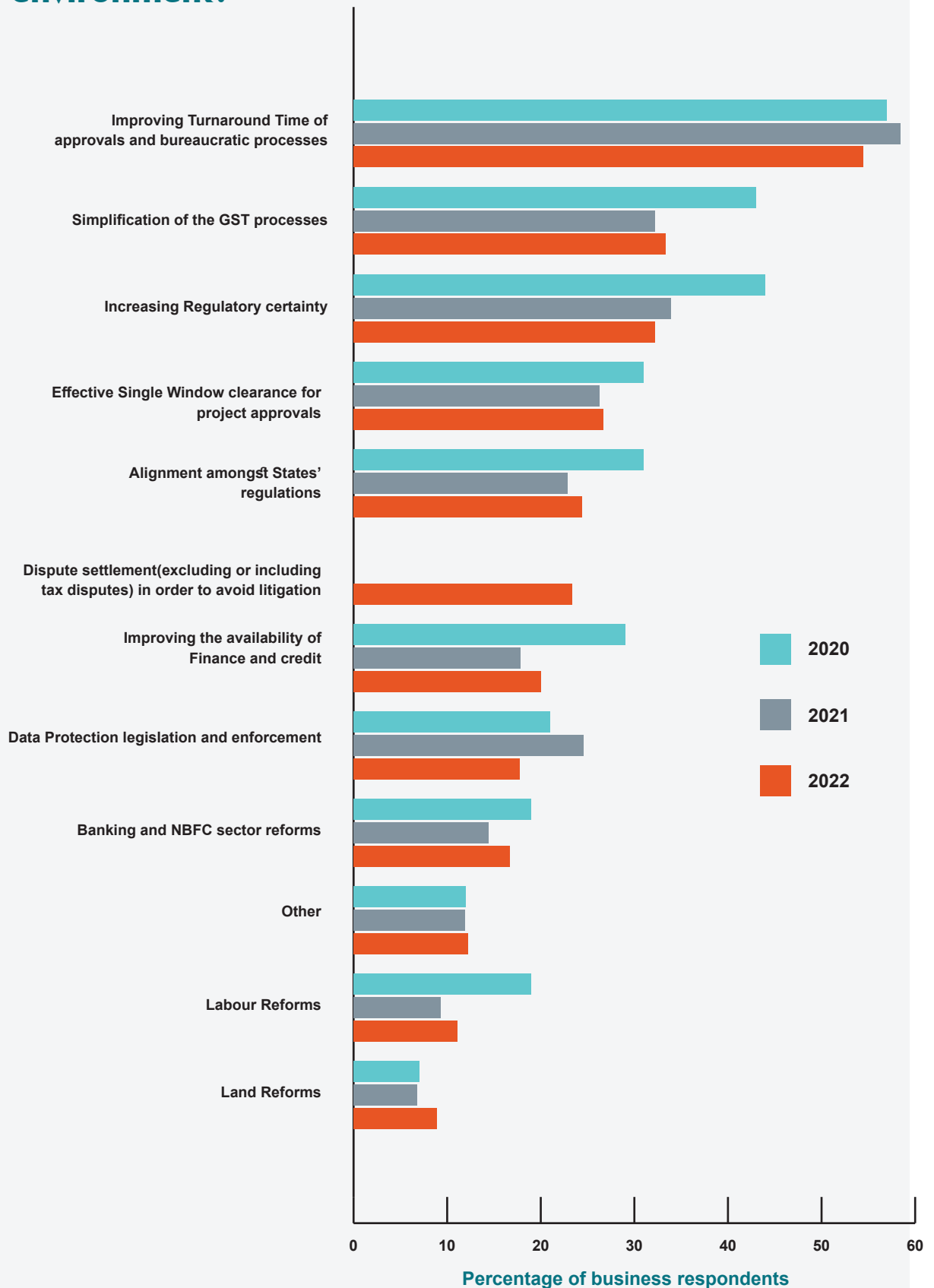


Simplification of the GST processes



Increasing regulatory certainty

Which one of the following reforms in your opinion will most significantly improve India's business environment?



PRO-BUSINESS GOVERNMENT OF INDIA

We asked businesses to highlight certain policies and/or incentives that the Government of India and State Governments have undertaken in recent years that have been particularly positive towards improving the ease of doing business. This enables us to understand areas that made a difference to businesses and which could be replicated or expanded across other areas of the operating environment to bring further benefits.

Streamlining of the GST was outlined by multiple businesses as a positive. Clearly, results in previous sections show that there could be further improvement, with it coming up as the second greatest barrier among legal and regulatory impediments and as the most desired reform by businesses. The UKIBC believes the introduction of GST has been a positive step, but there has been some disruption in the short-term due to complications in adhering to new tax policy and the associated processes. In the medium to long-term, we are confident that it will benefit India by bringing greater alignment between states and union territories.

The reduction of the corporate tax rate from 30 percent to an effective corporate tax rate of 25.17 percent (after cess and surcharges are accounted for), as announced in September 2019, was also highlighted as a positive. The introduction of this more globally competitive tax rate (closely aligned with G20 countries average of 25.5 percent and much closer to the regional average of 21 percent) will have a positive impact, not just for the major manufacturers, but all the way through the supply chains as businesses will now be able to reinvest more of their profits in innovation and expansion.

Mutual recognition of qualifications has been welcomed by businesses since being agreed in July 2022 when the UK and Indian Governments signed a Memorandum of Understanding officially recognising each other's higher education qualifications. The MoU means A-levels and their equivalents, undergraduate and postgraduate degrees will now be recognised in India. This will enable students to seamlessly transition between our two countries, improve the skills-base, cement institutional partnerships, catalyse greater research collaboration that increase bilateral investment and trade flows, help businesses in India to find graduates with the necessary skills, and ultimately resulting in more jobs and prosperity in both countries.

Businesses also appreciate the Government's focus on developing the country's infrastructure, from roads and railways to electricity reliability and the rollout of internet across the country. The Gati Shakti masterplan for infrastructure connectivity complements the Make In India and Atmanirbhar Bharat (self-reliant) ambitions too.

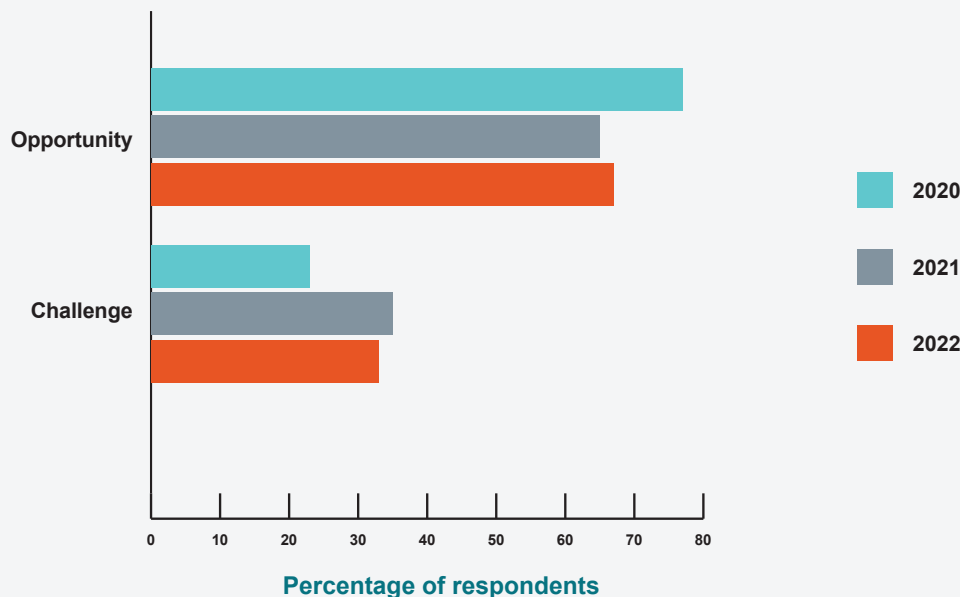
Businesses believe that, together, these initiatives and the overall ambition of India to develop the economy and become a key global player are helping to increase opportunities. The combination of this important work with a strong emphasis on ease of doing business is an attractive proposition for new and existing investors

ATMANIRBHAR BHARAT: INDIA'S SELF-RELIANT MISSION

As well as welcoming foreign investment, the Government of India is simultaneously implementing its Atmanirbhar Bharat mission, or “Self-Reliant India” Mission.

On the whole, UK business view Atmanirbhar Bharat positively, with 67 percent of businesses surveyed this year viewing the self-reliant mission as an opportunity to do more trade and investment with India, versus 33 percent that see the self-reliant mission as a challenge. This represents a slight increase from the 65 percent of businesses that saw it as a positive in our 2021 Doing Business in India report.

Do you think 'Atma Nirbhar Bharat' Self-reliant India is an opportunity or challenge to your trade or investment in India?



Businesses that view the mission as an opportunity to do more trade and investment in India had a variety of reasons for doing so. These included general views that they believe the ambition to make India more self-reliant is right, that it will help India's economy to grow and therefore create more jobs and more economic opportunities.

Others noted the positives for domestic construction and real estate, infrastructure, and the aim to make India a global innovation and manufacturing hub. India's skills and talent were also highlighted as extremely positive for India's present and future prospects.



Due to its geographic position and its environment, India acts as a stepping stone to the rest of Asia and Africa, and due to its environment, when a product can work in India and for the Indian market, it will work in other emerging markets in Asia and Africa as it would already be tested for input and environmental issues.

- UK business representative

Those businesses that saw Atmanirbhar Bharat as a challenge raised concerns that local goods and manufacturing are being prioritised ahead of international alternatives, sometimes to the detriment of India; as one respondent noted: "No single country market is sufficient to cover the volume of materials and production needs to take place at the most efficient locations".

Other businesses raised issues around the requirement to transfer IP and would like to see greater investor protection, regulatory certainty and IP protection and processes.

The Indian ambition to become the world's manufacturing powerhouse and a major player within the global economy is right. To achieve that goal, India will need imports of technology and knowledge transfers if it wants to be a competitive exporter. It is therefore vital that India continues to improve its business environment to attract and facilitate external support, investment, and partnerships.

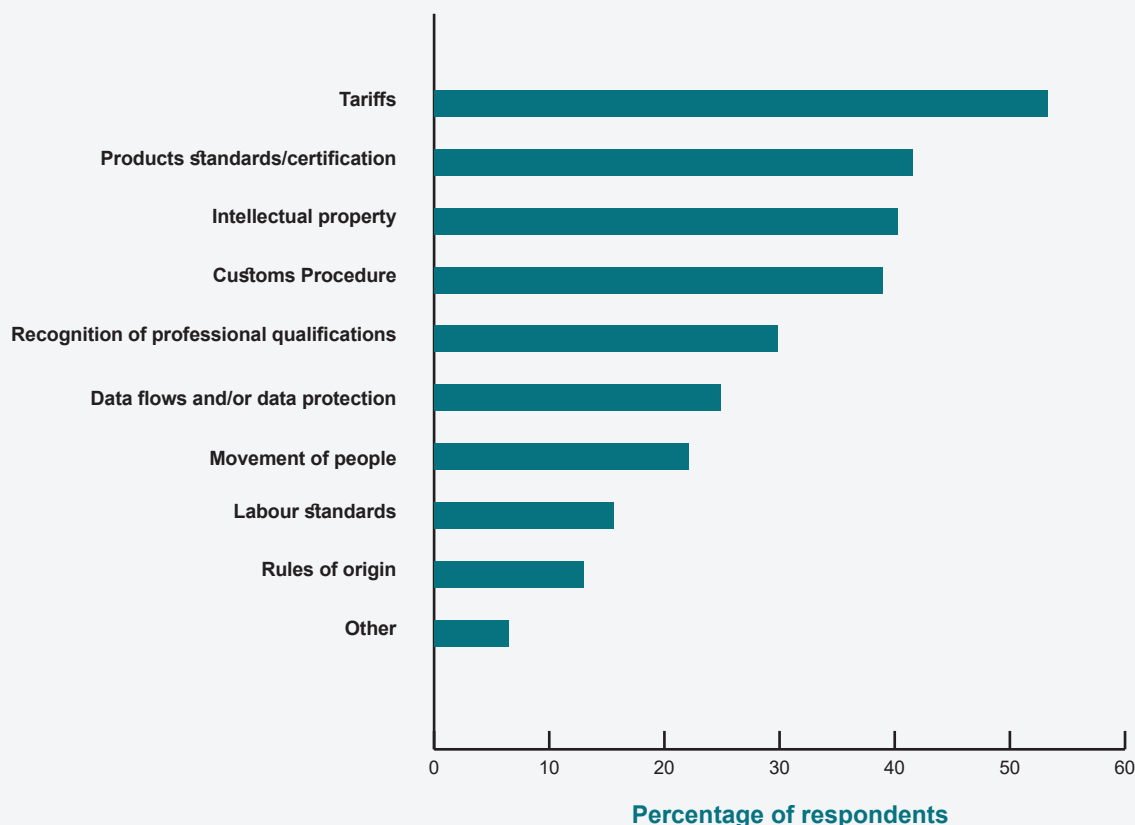
UK businesses are excited at this prospect, and, in large part, are positive about Atmanirbhar Bharat because they are already established in India. They welcome the opportunity to partner with Indian companies in country for mutual benefit, supporting business growth and playing a supportive role in the Indian growth story.

PRIORITIES FOR A SUCCESSFUL UK-INDIA FTA

In January 2022, the UK and Indian Governments launched negotiations towards a Free Trade Agreement. Negotiating teams have since met across multiple rounds of negotiations to take forward 26 policy areas including: Trade in Goods and Services, Investment, Intellectual Property, Technical Barriers to Trade, Government Procurement, Transparency, Trade and Development, and Digital.

Businesses welcome the breadth of areas covered. It is welcome to see the inclusion of both trade and investment and covering both goods and services. Building on our pre-FTA consultation prior to negotiations, we asked the businesses surveyed what they would most like to see included in the Free Trade Agreement:

Top three priorities from the list below for a future free trade agreement (or related trade talks) with India



Tariffs, product standards/certification, intellectual property, and customs procedures were the issues that businesses would most like the UK-India FTA to cover. These are in line with the UKIBC's recommendations made to both Governments.

In addition, recognition of professional qualifications (such as lawyers and architects) is high on the list, as selected by 30 percent of respondents. Such recognition would build on the recent MoU between our governments for mutual recognition of academic qualifications, specifically A-levels and their equivalents, and undergraduate and postgraduate degrees.

Data flows and data protection were also selected by a considerable portion, with one quarter of respondents putting it in their top 3 priorities.

The UKIBC continues to advocate that the Governments' FTA negotiations should focus on:

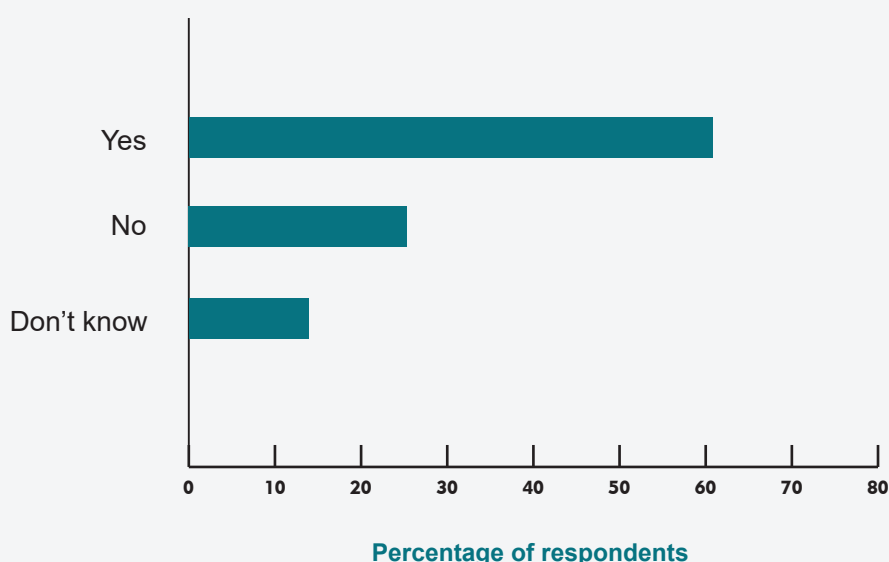
- reducing tariffs in a relatively limited range of sectors, including on alcoholic spirits, food, and in the healthcare sector;
- reducing non-tariff barriers to goods trade, such as by aligning standards and simplifying burdensome and costly customs procedures. As with tariffs, certain sectors can be prioritised for an interim Agreement;
- and IP protection and alignment of data protection rules so as to drive growth in the innovative, tech-rich, and digitally-driven future-focused industries that will increasingly drive expansion of UK-India trade.

CONCLUSION

Although challenges remain, the Government of India is committed to working towards an easier, business-friendly environment.

UK companies welcome this commitment and are largely positive about the ease of doing business in India. In fact, we asked businesses directly, with 61 percent saying yes, 25 percent saying no, and the remainder were not sure.

On the whole do you think it is getting easier to do business in India?



Those who were optimistic applauded the increasing use of digital formats for e-governance, transparency in decision making, and production linked incentives (PLI). Faster and simpler approval and transaction processes are enabling businesses to expand investments and create new opportunities for business to grow. Businesses were also optimistic about initiatives taken by the Indian government on digital transformation, fintech and healthcare that will future proof the Indian economy and roll out benefits to society through more and better use of technology.

Those more pessimistic stated that India is still a highly regulated country and that burdensome red tape and the lack of investor protections disincentivise investment. Businesses, while respecting the self-reliant mission, believe that there should be a balance between local production and development and making it easier for international businesses to bring their goods and services to India.

For UK companies and higher education institutions this positive trend presents a welcome development, expanding the scope for UK-India collaboration, trade and investment. Simultaneously, this presents an encouraging outlook and constructive feedback for the Indian government and domestic businesses who have actively worked to improve the country's business environment.

India has made great progress in its economic development in recent years and has recovered strongly from the pandemic to be the fastest growing major economy in the world. This world-leading growth is helping India to establish itself as an important global player, both economically and geopolitically.

That journey is continuing at pace. In the next decade, India is forecast to become the largest country by population and the third largest economy in the world. Understandably, businesses want to be a part of that growth journey.

The UKIBC stands ready to support the Government of India towards the ease of doing business mission and to act as a voice for businesses to share their experiences to ensure a business environment that maximises the huge potential of the UK-India trade and investment relationship.

WHO ARE WE?

The UK India Business Council is a strategic advisory and policy advocacy organisation with a mission to support businesses with the insights, networks, policy advocacy, services, and facilities needed to succeed in the UK and India. We believe passionately that the UK-India partnership creates jobs and growth in both countries, and that UK and Indian businesses have ideas, technology, services and products that can succeed in India and the UK respectively.

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